



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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March 16, 2011

Sean Spencer, Executive Director
St. Margaret of Scotland Housing Corporation
4067 Shenandoah Avenue
St. Louis, MO 63110

RE: Community Development Block Grant (CDBG) (Project #2011-CDA2)

Dear Mr. Spencer:

Enclosed is a report of the fiscal monitoring review of St. Margaret of Scotland Housing Corporation, CDBG Program, for the period January 1, 2010 through July 31, 2010. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of St. Margaret of Scotland Housing Corporation. Fieldwork was completed on November 9, 2010.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the Community Development Administration (CDA) to provide fiscal monitoring to all grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at 314-622-4723.

Sincerely,

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Jill Claybour, Acting Executive Director, CDA
Lorna Alexander, Special Assistant for Development, CDA



CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**ST. MARGARET OF SCOTLAND HOUSING CORPORATION
CONTRACT #10-31-24
CFDA #14.218**

FISCAL MONITORING REVIEW

JANUARY 1, 2010 THROUGH JULY 31, 2010

PROJECT #2011-CDA2

DATE ISSUED: MARCH 16, 2011

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
ST. MARGARET OF SCOTLAND HOUSING CORPORATION
FISCAL MONITORING REVIEW
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INTRODUCTION

Background

Contract Name: St. Margaret of Scotland Housing Corporation

Contract Number: 10-31-24

CFDA Number: 14.218

Contract Period: January 1, 2010 through December 31, 2010

Contract Amount: \$66,000

This contract provided Community Development Block Grant (CDBG) funds to St. Margaret of Scotland Housing Corporation (Agency) for assistance in combating the deterioration in the Shaw neighborhood. By partnering with private developers, the Agency rehabbed derelict buildings and sold them to owner/occupants through the use of federal and state historical tax credits.

Purpose

The purpose was to determine the Agency's compliance with federal, state, and local Community Development Administration (CDA) requirements, for the period of January 1, 2010 through July 31, 2010, and make recommendations for improvements, as considered necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grants administered by CDA. Evidence was tested supporting the reports the Agency submitted to CDA and other procedures were performed, as considered necessary. Fieldwork was completed on November 9, 2010.

Exit Conference

An exit conference was conducted at the Agency on February 24, 2011. The Agency was represented at the exit conference by Tom Sweeney, President of the Board; Stephanie Noecker, Vice President of the Board; Sean Spencer, Executive Director. The Internal Audit Section (IAS) was represented by Jeremy Holtzman, Auditor II; Chance Key, MBA, Auditor-in-Charge.

Management's Responses

Management's responses to the observations and recommendations noted in the report were received on March 7, 2011, and have been incorporated into the report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal, state, and local CDA requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project #2009-CDA28, issued April 23, 2009, contained three (3) observations:

1. Opportunity to use two duly authorized signatures on checks (**Repeated – See Current Observation #1**)
2. Opportunity to submit monthly financial reports in a timely manner (**Repeated – See Current Observation #2**)
3. The Agency has going concern issues (**Resolved**)

A-133 Status

According to a letter received from the Agency, it did not expend \$500,000 or more in federal funds for the year ended December 31, 2009 and was not required to have an A-133 audit.

Summary of Current Observations

Recommendations were made for the following observations, which if implemented, could assist the Agency in fully complying with federal, state, and local CDA requirements.

1. Opportunity to have two duly authorized signatures on checks (repeated)
2. Opportunity to submit monthly reports in a timely manner (repeated)
3. Opportunity to file IRS Form 990 in a timely manner

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Have Two Duly Authorized Signatures On Checks (Repeated)

The grant-funded disbursement checks were not signed by two duly authorized officers of the Agency. It was observed that 24 out of 60 checks, or 40 %, reviewed had one authorized signature. In addition, there were several instances when the previous Executive Director wrote and signed checks made payable to him.

Community Development Administration (CDA) Operating Agency Procedures Manual Section 2.2 Internal Controls states, "CDA requires that two authorized individuals sign all grant disbursement checks."

The current Executive Director stated that all of the checks written with one signature were written from the previous Executive Director. The previous Executive Director resigned his position in May 2010.

Non-compliance with dual signature internal controls may result in misappropriation of federal funds. In addition, it may result in possible delay or suspension of expenditure reimbursements to the Agency.

Recommendation

It is recommended that the Agency comply with CDA's Operating Agency Fiscal Procedures Manual by having all of its CDA disbursement checks signed by two duly authorized officers of the Agency.

Management's Response

The Shaw Neighborhood Housing Corp (SNHC) concurs with the observation.

Actions/Corrections

- *The SNHC Board reprimanded the previous Executive Director after noticing some checks were written to him and signed by himself. The Board investigated all of the checks and none were found to be inappropriate.*
- *The Board updated SNHC fiscal policy and included it in our Policies and Procedures manual, distributed copies to all SNHC Board members, the SNHC Board reviewed and approved the document. The President of the Board has reiterated the need for two signatures on ALL checks at every board meeting.*
- *The Board instituted a policy of reviewing bank account statements at every monthly meeting which provides copies of all deposits and written checks.*
- *The Board instituted that payroll checks are not signed by the Executive Director.*
- *From August 1, 2010, all checks were appropriately signed by two individuals excluding one check. Eighty six (86) out of eighty seven (87) checks were written from August 1, 2010 through January 31, 2011 and had two signatures. All payroll*

1. Continued...

- *checks are signed by two officers (President, VP, or Secretary, not the Executive Director). The percentage of checks signed by two people since the last day of the audit report is 99% which is a 59% improvement from the original findings.*
- *Lastly, in another effort to remove the Executive Director from writing his own payroll checks, all payroll services have been contracted to Midwest Accounting Services, which cut the checks and provide payroll services.*

Auditor's Comment

A letter received from the Agency on February 28, 2011, signed by the President of SNHC, stated that the President "reiterated the need for two signatures on ALL checks at every board meeting." Additionally, the letter stated, "Board members are asked to review the statements to confirm two signatures are written on all checks."

2. Opportunity To Submit Monthly Reports In A Timely Manner (Repeated)

Seven monthly programmatic statements were reviewed, Three were submitted an average of 24 days late:

Report Month	Due Date	Date Submitted	Number of Days Late
February 2010	March 10, 2010	March 16, 2010	6
May 2010	June 10, 2010	July 28, 2010	48
June 2010	July 10, 2010	July 28, 2010	18
Total Days Late			72
Average Days Late			24

Additionally, the Agency's financial reports for the period January 2010 through July 2010 were submitted late. They were submitted on September 23, 2010.

The CDA agreement states, "...the Operating Agency shall be required to submit monthly programmatic reports and financial statements to the Comptroller's Office-Federal Grants Section no later than the 10th calendar day of each month following the reporting month."

The Agency did not have an effective system of internal controls in place to ensure compliance with the CDA regulations and the reporting requirement of OMB Circular A-133 compliance requirement.

Non-compliance with the CDA regulations may cause a delay or suspension in the processing of reimbursement requests, resulting in the interruption of the Agency's service to its clients.

2. Continued...

Recommendation

It is recommended that the Agency establish a system of internal controls to ensure compliance with CDA procedures and make certain that monthly financial and programmatic reports are submitted by the required date.

Management's Response

The Shaw Neighborhood Housing Corp (SNHC) concurs with the observation.

Actions/Corrections

- *Per Federal Grants request, all past due monthly financial reports from January 2010 were submitted on September 23, 2010.*
- *The Executive Director updated the Executive Committee and the rest of the Board about the required reporting including the monthly financial report and monthly programmatic report.*
- *Since August 1, 2010 (Current Executive Director's start date), all monthly financial reports and programmatic reports have been submitted each month and in a timely manner as per CDA contract.*
- *Emails are sent to the receiving parties at CDA and Federal Grants to make sure that they are aware that the reports have been sent.*
- *Monthly financial and programmatic reports are reviewed at Board meetings to ensure all Board members are up to date on the Board financials and the Boards progress toward organizational goals.*
- *The future Board minutes will reflect the dates the monthly financial and programmatic reports are sent to the appropriate parties.*

3. Opportunity To File IRS Form 990 In A Timely Manner

The Agency filed its 2009 IRS Form 990 on August 9, 2010. This form was due on May 15, 2010. The Agency did not provide documentation of filing an automatic three month extension, which would have extended the due date to August 15, 2010.

According to US Code Title 26, Section 6033 (a) (1), "...every organization exempt from taxation under section 501 (a) shall file an annual return, stating specifically the items of gross income..." Form 990 must be filed by the 15th day of the 5th month after the organization's accounting period.

The Agency did not have a system of internal control in place to ensure compliance with the federal filing requirements for IRS Form 990.

According to US Code Title 26, Section 6652 (c) (1) (A), a penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts of the entity for the reporting

3. Continued...

period, can be charged when a return is filed late. In addition, CDA may delay processing of reimbursement requests, suspend, or terminate funding.

Recommendation

It is recommended that the Agency establish and implement a system of internal controls to ensure compliance with the federal filing requirements for IRS Form 990.

Management's Response

The Shaw Neighborhood Housing Corp (SNHC) does not concur with the observation.

Actions/Corrections

- *Midwest accounting has been hired to complete the return and separately, [an Accountant], has reconciled our accounting each month to ensure accurate accounting and timely delivery of required documentation to meet the submission deadline.*
- *An extension request was filed with the IRS and the extension was granted. The 2009 IRS tax form 990 was submitted on time. This has been verbally confirmed by Midwest accounting service and I am waiting on the extension letter from our accounting service. In addition, to my knowledge, SNHC did not incur any late penalties.*

Auditor's Comment

The Auditor has not received documentation of filing a tax extension as of March 8, 2011. The auditor stands by this observation.